

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)  
INFRASTRUCTURE STATE REVOLVING FUND PROGRAM (ISRF)**

**STAFF REPORT**

**EXECUTIVE SUMMARY**

<b>Applicant:</b> City of Davis	<b>Amount Requested:</b>	\$10,000,000
<b>Name of Project:</b> East Area Water Storage Tank Capital Improvement Project (CIP8172)	<b>Requested Financing Term:</b>	30 years
<b>Project Address:</b> 44085 County Road 32A Davis, CA 95616	<b>Interest Rate:</b>	4.00%
	<b>Tier:</b>	Tier 1
<b>Project Description:</b> The Project consists of construction of a 4 million gallon municipal water storage tank and an 8.6 million gallon per day pump station, associated yard piping and water transmission main to connect to the existing city water distribution system.		
<b>Use of Financing Proceeds:</b> I-Bank loan proceeds will be used for construction, contingency, engineering, architecture, design, environmental, permits, construction management and the I-Bank fee.		
<b>Source of Security and Repayment:</b> Subordinate Lien on Net Water System Revenues	<b>Form of Financing Agreement:</b> Installment Sale Agreement	
<b>Scoring Criteria:</b>  Project Impact Community Economic Need Land Use/Environmental Protection/Housing Element Leverage Readiness TOTAL	<b>Applicant Score:</b>  <div style="text-align: right;">           56            10            25            0            5            96         </div>	
<b>I-Bank Staff:</b> Karl A. Whittington	<b>Date of Staff Report:</b> April 21, 2009	
<b>Date of I-Bank Board Meeting:</b> April 29, 2009	<b>Resolution Number:</b> 09-15	
<b>Staff Recommendation:</b> Staff recommends approval of Resolution No. 09-15 authorizing financing to the City of Davis for the East Area Water Storage Tank Capital Improvement Project (CIP8172), subject to conditions contained therein.		

## **PROJECT DESCRIPTION**

The City of Davis (City) requests ISRF Program financing to fund the East Area Water Storage Tank Capital Improvement Project (CIP8172) (Project) (Exhibit 1 – Maps). The Project is located in the County of Yolo on City-owned property. The Project consists of the construction of a water storage tank and a booster pump station, the installation of a generator, associated yard piping and water transmission main to connect to the existing City water distribution system.

The storage tank will be approximately three stories tall, constructed of pre-stressed concrete, and have approximately 4 million gallons capacity. The booster pump station includes a concrete building to house the pumps and equipment, will have three pumps, an emergency generator and be sized to provide approximately 2,500 gallons per minute (gpm) capacity. The Project is expected to be constructed under one contract.

In its 1989 Water Management Plan (Plan), the City identified the need for approximately 8 million gallons (MG) of additional water storage capacity to offset a portion of additional groundwater well pumping capacity. The City constructed the first tank and booster pump station based upon the Plan, the West Area Tank, in 2002. The tank stores groundwater pumped from existing wells and, based upon declining water levels in the tank, the booster pumps replenish water in the tank. Presently, the West Area Tank fills primarily at night and the pump station operates during the morning peak demand period through the evening peak demand period. The Project is for the construction of a second similar water storage tank and booster pump station to geographically balance storage. The operation of the Project is expected to be similar to the West Area Tank.

The Project is consistent with Policy Water 2.1 as stated in the Water element of the City's General Plan (General Plan), which commits the City to supplying sufficient high quality water to its users, one of the main objectives of the Project. The General Plan also provides for development of residential and commercial development in the City's east area. The Project will provide the water improvements required to support the development. Also, I-Bank funding for the Project will result in the lowest impact on customer water rates and charges.

### **Project Economic Benefits**

The Project is also needed at this time to provide the additional capacity to support the water demands of the east Davis area in which the new retail and corporate businesses are located.

The Land Use and Growth Management element of the General Plan identifies the City's downtown as satisfying less than one-tenth of the community's need for apparel, accessories, general merchandise and department store space. Various surveys, economic studies, and public discussions revealed that several categories of retail

goods, including general merchandise, clothing, electronics, and soft goods are underrepresented in the City, resulting in residents traveling outside the City to purchase many basic goods (known as leakage). Such trips and purchases negatively impact the local economy and regional air quality.

The City Council (Council) identified a goal of encouraging economic development, including retail development to satisfy the community's retail purchasing needs. To meet this goal, the Council adopted Ordinance No. 2259 on June 27, 2006, amending the Land Use and Growth Management element of the General Plan and the East Davis Specific Plan to create a "general retail" land use designation. The Council rezoned approximately 19 acres adjacent to Second Street at the eastern intersection of Faraday Avenue to permit general merchandise retail and approved a development agreement for a new retail development known as the Second Street Crossing (Exhibit 2 – Second Street Crossing) which will include a new Target Store and other retail establishments. The City expects the convenience of Second Street Crossing to encourage shopping within the community and improve the local economy by recapturing retail dollars currently spent elsewhere by the City's residents, increase sales tax revenue to the City, create diverse job opportunities, and improve regional air quality by reducing distances traveled for shopping and employment.

Since Second Street Crossing is located on the I-80 corridor between Sacramento, Solano, and Yolo counties, it will be accessible to travelers from outside the region improving the opportunity for the City to capture retail sales and sales tax revenue from non-residents. Impact to downtown and neighborhood centers are expected to be minimal because the City expects new retail and commercial shops to supplement goods and services provided by downtown.

Per a letter from Target, the Target at the Second Street Crossing project is estimated to create between 170 to 235 total jobs, of which 35 to 50 jobs will be filled by full-time employees and 135 to 185 jobs will be filled by part-time employees. Based upon the City's estimate of two part-time employees equaling one full-time equivalent employee, the total number of full-time employees is estimated to be 103 to 143 upon opening in October 2009. The number of employees is expected to fluctuate with the seasons and holidays. With a large population of university students, the City has a ready supply of part-time employees.

Target will not occupy all the space available at Second Street Crossing. An additional 46,000 square feet (sq.ft.) of retail space will be available for other smaller retail and commercial businesses, including restaurants. Based on the 2003 Commercial Buildings Energy Consumption Survey (CBECS) by the U.S. Energy Information Administration (EIA), the mean square feet per retail worker (Other Than Mall) is 1,246. Using this data, other tenants at Second Street Crossing are expected to create an additional 37 jobs.

The Land Use and Growth Management element of the General Plan identifies the need to target higher value-added, technology oriented industrial uses that are attracted to

Davis' competitive advantages, particularly its university linkages, education workforce and quality of life for employees. In response to this element, the City recently attracted Digital Technological Laboratory Corporation (DTL), which moved to 3805 Faraday Avenue, adjacent to Second Street Crossing, to allow for future expansion and to take advantage of the large university student population labor pool. DTL provides research and development services for Mori Seiki, one of the biggest machine tool manufacturers in the world; and consultation services and support for many machine tool users. DTL provides advanced manufacturing and machine technology for computer numerical controlled (CNC) machine tools, creates high performance and low cost solutions for its clients through innovative analysis methodologies, advanced mechanical design techniques and high performance software solutions allowing its clients to shorten development cycle, improve product quality and fully utilize their machine tools. According to the City, DTL currently has 70 full time employees and estimates creating 80 new jobs sometime in the future.

For job creation analysis, staff used a conservative approach basing calculations on the minimum number of new jobs at Target and DTL (173) expected to be supported and retained by the Project (Exhibit 3 – Jobs) and did not include jobs for the additional businesses to be located and Second Street Crossing nor the 80 jobs DTL anticipates to add in the future.

Finally, the City is a participant in the County of Yolo (County) Comprehensive Economic Development Strategy (CEDS). CEDS is a local planning and implementation process designed to help create jobs, foster more stable and diversified local economies, improve living conditions and provide a mechanism for guiding and coordinating the efforts of persons and organizations concerned with economic development. The County, each incorporated jurisdiction within the County—Davis, West Sacramento, Winters, and Woodland--the unincorporated County and the Yolo County Workforce Investment Board (WIB) are participants in CEDS. CEDS developed the following seven goals to implement a common vision for the participants:

- Full alignment of workforce skills and industry needs;
- Business climate and business support;
- Support for technology and innovation;
- Vibrant downtowns, marketplaces and riverfronts;
- Land and infrastructure for future development;
- Agricultural sustainability and viability;
- Tourism promotion and capacity building.

CEDS also lists downtown revitalization, technology and retail attraction, and water, wastewater and roadway improvements as a prioritized set of physical construction projects and interagency cooperation projects that advance the seven goals. The Project is expected to help the City achieve the CEDS goals stated above.

## **PROJECT SOURCES AND USES**

The Project will be financed with ISRF Program and City funds as follows:

PROJECT USES	PROJECT SOURCES		
	I-Bank	City	Total
Construction and Construction Contingency	\$8,610,000		\$8,610,000
Engineering/Architecture/Design, Environmental, Permits and Construction Management	\$1,305,000	\$406,000	\$1,711,000
I-Bank Loan Fee	\$85,000		\$85,000
Total	\$10,000,000	\$406,000	\$10,406,000

The City has committed its funding pursuant to a resolution adopted at its April 21, 2009 meeting and has already paid for a portion of the Project soft costs. Staff has asked for a copy of the resolution.

## **ELIGIBILITY CRITERIA**

The City and the Project meet all of the statutory and supplemental threshold eligibility criteria.

## **CITY INFORMATION**

Located in Yolo County, the City is situated 11 miles west of Sacramento, 385 miles north of Los Angeles and 72 miles northeast of San Francisco near several highways, a nearby deep-water port, a major airport and transcontinental rail lines. Founded in 1868, the City was incorporated in March 1917 as a general law city. The City operates under the Council-Manager form of government with a five-member council, elected at large during the state primary election in June of even calendar years.

The City's history is closely tied to the University of California at Davis (UC Davis), which was established in 1908 as the "University Farm School." The City has a population of approximately 64,500 people with a unique university/residential community internationally known for commitment to environmental awareness and implementing progressive and socially innovative programs. The City's quality of life and vigorous progressive community is reflected in its small-town style and many well known symbols: energy conservation, environmental programs, green belts, parks, preservation of trees, British red double-decker buses, bicycle paths, record number of bicycles per capital, and the quality of its educational institutions. From its beginnings as an agricultural community, UC Davis is now recognized internationally for its contributions to life sciences, agriculture, veterinary medicine, biotechnology, medical technology and engineering.

## **SYSTEM INFORMATION**

The City water system (System) serves an area bordered by UC Davis and West Sacramento and includes the City of Davis, El Macero (an unincorporated community located south of the City off Interstate 80), a number of individual customers with whom special arrangements have been made and authorized by the City Council, one service connection to a mobile home park outside the City, and has two connections to the UC Davis water system, which can be opened for mutual aid during emergency operations. The System serves a population of approximately 67,270.

The City relies solely on groundwater to meet its entire potable water demand. The System consists of wells, distribution pipelines, and storage tanks, whose characteristics are summarized below.

### **Groundwater Facilities**

Water is currently supplied by two aquifers through 21 active wells (Active Wells) located throughout the City. ("Active Wells" means wells that are fully operational and used on a regular basis.) Active Wells range in age from new to 50 years old. Average annual well production since 2000 is approximately 4,800 MG. Aquifers in the Davis area are recharged by a number of sources. Deep percolation of rainfall and to a lesser extent irrigation water, are major components of groundwater recharge. Other significant sources include streambeds, channels, Putah and Cache Creeks, and the Yolo Bypass.

### **Water Rights**

The City pumps groundwater from the Sacramento Valley groundwater basin and there are no legal restrictions to groundwater pumping. Under California water law, groundwater appropriation rights are not assigned unless ordered through legal adjudication proceedings. The Sacramento Valley groundwater basin is not adjudicated.

### **Storage**

The System currently has two storage facilities: a 200,000 gallon elevated storage tank near Elmwood Drive and Eight Street, and the 4 MG West Area Tank on John Jones Road in west Davis. The Project includes the construction of an additional 4 MG tank in east Davis near Mace Blvd.

### **Treatment Facilities**

System water is filtered naturally by the sand and gravel of the aquifers. The only treatment administered is the addition of chlorine (sodium hypochlorite) at all wells for disinfection.

### **Distribution System**

Water is distributed through approximately 175 miles of 4 through 14-inch diameter pipelines. All facilities are monitored by a Supervisory Control and Data Acquisition

(SCADA) system, which activates wells and booster pump facilities based on storage tank water levels or pressure at selected locations in the distribution system.

### **Strategic Planning**

All but five of the System's 21 wells tap into the aquifers at a depth of approximately 300 to 600 feet. (Depths of less than 700 feet are referred to as the intermediate depth aquifer. Depths of 700 feet and greater are referred to as the deep aquifer.) Due to more stringent water quality regulations and concerns, the City has been gradually shifting groundwater pumping through its 21 wells from the intermediate to the deep aquifer. Newer wells are therefore constructed in the deep aquifer to depths ranging from 1,400 to 1,800 feet.

Since 1987, the City has removed six intermediate wells from service due to age, poor water quality, production, and/or operation and maintenance problems. Two additional active wells are likely to be taken out of service due to their age and other problems associated with their use. The City is considering the addition of two new deep wells to replace wells that have been taken offline. Additional deep wells will be necessary to meet the water demands for the City and UC Davis. Long-term development of deep wells over 1,500 feet deep is planned to improve the aesthetic characteristics of the City's water and to meet drinking water regulations. A secondary benefit of deep wells is improved water quality that helps the City comply with its NPDES permit for operating its wastewater treatment plant.

The City's projected growth demands are expected to be met with treated surface water supply and peak demand deep wells by 2020. The System currently does not use surface water, however, the City is pursuing a right to divert up to 20,000 acre feet per year (ac-ft/yr) of water from the Sacramento River, and is taking action to keep this option open. Projected demands are expected to be met with treated surface water supplies once available in 2020.

## **CREDIT ANALYSIS**

Current and historical system users are categorized as follows:

<b>NUMBER OF SYSTEM USERS</b>					
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008*</b>
<b>Residential</b>	14,769	14,794	14,818	14,842	14,842
<b>Commercial</b>	563	671	691	697	697
<b>Other</b>	672	764	799	800	800
<b>TOTAL</b>	<b>16,004</b>	<b>16,229</b>	<b>16,308</b>	<b>16,339</b>	<b>16,339</b>

Source: City

\*City Estimate; 2008 data not available.

During the three year period between 2004 and 2007 the System experienced average growth per year of 112 new users. The City estimates no growth occurred in 2008.

“Other” category consists of institutional and agricultural irrigation users.

Current System usage and revenues are as follows:

CURRENT SYSTEM USAGE AND REVENUE				
	Annual Usage (CCF) <sup>(1)</sup>	% of Usage	Annual Gross Revenues	% of Total Revenues
<b>Residential</b>	4,238,798	68.2%	\$9,546,144	83.5%
<b>Commercial</b>	1,229,764	19.8%	\$1,493,692	13.1%
<b>Other</b>	749,391	12.1%	\$398,033	3.5%
<b>TOTAL</b>	<b>6,217,953</b>	<b>100.0%</b>	<b>11,437,869</b>	<b>100.0%</b>

<sup>(1)</sup> Hundred cubic feet  
Source: City

Annual usage is concentrated in residential users with 68.2% of total usage and 83.5% of total revenue.

The following table reflects the System’s historical and current average monthly user charge per residential unit.

Historical and Current Average Monthly User Charge per Residential Unit					
FYE June 30:	2004	2005	2006	2007	2008
Residential	19.70	19.70	19.70	22.93	27.48
% change		0.0%	0.0%	16.4%	19.8%

Source: City

The average monthly user charge per residential unit was flat from fiscal year ended (FYE) June 30, 2004 through FYE June 30, 2006. As shown above, rates were increased 16.4% in FYE June 30, 2007, and 19.8% in FYE June 30, 2008.

The table below compares the City’s current average monthly System user charge per residential unit with comparable nearby systems.

COMPARABLE RATE DATA	
System Name	Monthly Average Residential Charge
<b>City of Davis</b>	<b>\$27.48</b>
City of Vacaville	\$34.18
City of West Sacramento	\$36.40
City of Folsom	\$36.70
City of Dixon	\$45.99

Source: City

The City’s current average monthly user charge is the lowest of the nearby cities as reflected in the table above.

The table below lists current top ten users of the System:

SYSTEM TOP 10 USERS		
User	% of System Use	% of System Revenues
1. Davis School District	0.66%	0.53%
2. Regents of UC	0.24%	0.18%
3. El Macero Central	0.22%	0.17%
4. Sutter Davis Hospital	0.21%	0.16%
5. Centro Watt Operating Partners	0.18%	0.14%
6. Sycamore Partners, LLC	0.17%	0.12%
7. Oakshade Shopping Center, LLC	0.14%	0.10%
8. Regents of UC	0.14%	0.10%
9. Lucky Shops	0.12%	0.08%
10. Shri Kuber, LLC	0.09%	0.06%
<b>TOTAL</b>	<b>2.17%</b>	<b>1.64%</b>

Source: City

All of the top ten users are classified as commercial and account for 2.17% of total System use and 1.64% of the System's total revenue.

### Security and Source of Financing Repayment

The City proposes to pledge net System revenues for repayment of the proposed financing resulting in a lien on the revenues subordinate to the pledge and lien for the two outstanding loan contracts (Contract Number E64007 and E85002) (Contracts) with the State of California Department of Water Resources (DWR). Under the terms of the Contracts, the City was required to establish a "dedicated source of revenue for repayment." According to the City's 2008-2009 Budget, the source of repayment for the Contracts is a water fund surcharge. Per telephone conversation with the Utilities Manager, all System revenues, including the water fund surcharge, are reported in the CAFR under Charges for Current Services. All System revenues are deposited into and maintenance and operating expenses are paid from the water fund (Water Fund).

Staff reviewed the City's Annual Financial Report for FYE June 30, 2006, 2007, and 2008. The independent auditor's report states that the financial statements present fairly in all material respects the financial position of the City, the results of its operations and the cash flows for the audited years consistent with generally accepted accounting principles.

Staff reviewed the City's 2008-2009 adopted budget. The Project is included in the City's Capital Improvement Projects in the budget with the stated goal of completing design and initiating construction of this Project during FYE 2008-2009. Per a

telephone conversation with the City Utilities Manager on March 13, 2009, staff learned that Project design is 100% complete.

### Comparative Balance Sheet Analysis

The Comparative Balance Sheet for the Water Fund for the last three fiscal years is as follows:

Comparative Statement of Net Assets						
Fiscal Year Ended (FYE) June 30, Source:	2006 CAFR	%	2007 CAFR	%	2008 CAFR	%
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash & investments	\$ 4,988,979	12.4%	\$ 3,846,010	3.8%	\$ 4,318,730	4.3%
Cash with fiscal agents	694,837	1.7%	698,956	0.7%	706,727	0.7%
Accrued interest	52,760	0.1%	62,932	0.1%	36,829	0.0%
Receivables		0.0%				
General accounts	1,555,566	3.9%	1,978,116	2.0%	2,093,235	2.1%
Grants		0.0%		0.0%	990	0.0%
Utility accounts	345,379	0.9%	614,431	0.6%	746,050	0.7%
<b>Total Current Assets</b>	\$ 7,637,521	19.1%	\$ 7,200,445	7.1%	\$ 7,902,561	7.9%
<b>Noncurrent Assets</b>						
Capital Assets						
Non-depreciable	3,535,206	8.8%	4,779,062	4.7%	5,753,458	5.7%
Depreciable	44,054,826	109.9%	118,926,643	117.7%	119,319,566	118.7%
Accumulated Depreciation	-15,141,801	-37.8%	-29,833,563	-29.5%	-32,494,969	-32.3%
<b>Total Noncurrent Assets</b>	\$ 32,448,231	80.9%	\$ 93,872,142	92.9%	\$ 92,578,055	92.1%
<b>Total Assets</b>	\$ 40,085,752	100.0%	\$ 101,072,587	100.0%	\$ 100,480,616	100.0%
<b>LIABILITIES</b>						
<b>Current Liabilities</b>						
Accounts payable	\$ 458,599	1.1%	\$ 340,776	0.3%	\$ 248,768	0.2%
Leave benefits payable	143,355	0.4%	154,427	0.2%	134,501	0.1%
Deposits	49,625	0.1%	49,625	0.0%	44,625	0.0%
Deferred revenue	166,904	0.4%	223,121	0.2%	264,114	0.3%
Loans payable	483,892	1.2%	495,944	0.5%	509,344	0.5%
<b>Total Current Liabilities</b>	\$ 1,302,375	3.2%	\$ 1,263,893	1.3%	\$ 1,201,352	1.2%
<b>Noncurrent Liabilities</b>						
Long-term loans payable	5,656,428	14.1%	5,160,443	5.1%	4,651,531	4.6%
<b>Total Noncurrent Liabilities</b>	\$ 5,656,428	14.1%	\$ 5,160,443	5.1%	\$ 4,651,531	4.6%
<b>Total Liabilities</b>	\$ 6,958,803	17.4%	\$ 6,424,336	6.4%	\$ 5,852,883	5.8%
<b>Net Assets</b>						
Invested in capital assets, net of related debt	\$ 26,791,803	66.8%	\$ 88,215,755	87.3%	\$ 87,417,180	87.0%
Unrestricted	6,335,146	15.8%	6,432,496	6.4%	7,210,553	7.2%
<b>Total Net Assets</b>	\$ 33,126,949	82.6%	\$ 94,648,251	93.6%	\$ 94,627,733	94.2%

Total Assets increased \$60.4 million or 150.7% over the three fiscal years 2006-2008, accompanied by an increase of \$61.1 million in Total Noncurrent Assets between 2006 and 2007. This was the result of GASB Statement 34 (Statement) implementation adjustments. Since the implementation of GASB 34 in fiscal year 2002-03, the City had been in the process of recording the historical costs and depreciation of infrastructure assets to comply with the Statement. In fiscal year 2006-07, the City concluded the process by completing a capital assets valuation study. The results of this study were

included in the City's financial reports for the FYE June 30, 2007, and resulted in accounting adjustments. The result of the accounting adjustments is reported as GASB 34 Implementation Adjustments in the City's CAFR.

The City bills for its combined utilities on a bi-monthly basis. The following chart reflects the System's Accounts Receivable Aging as of February 29, 2009 and illustrates that 85.7% of the accounts receivable are current.

<b>Accounts Receivable Aging</b>						
<b>Prepared 02/29/09</b>						
<b>Current</b>	<b>Over 30</b>	<b>Over 40</b>	<b>Over 60</b>	<b>Over 90</b>	<b>Over 120</b>	<b>Total</b>
\$ 3,374,562	\$ 18,529	\$ 747	\$ 201,071	\$ 3,153	\$ 340,410	\$ 3,938,472
85.7%	0.5%	0.0%	5.1%	0.1%	8.6%	100.0%

Source: City

### Comparative Revenues and Expenses Analysis

The Revenues and Expenses of the Water Fund for the last three fiscal years are summarized below:

<b>Comparative Statement of Revenues, Expenses, and Changes in Net Assets</b>						
Fiscal Years Ended (FYE) June 30,	<b>2006</b>	<b>%</b>	<b>2007</b>	<b>%</b>	<b>2008</b>	<b>%</b>
Source:	<b>CAFR</b>		<b>CAFR</b>		<b>CAFRs</b>	
% Change				23.5%		11.3%
<b>Operating Revenues</b>						
Charges for Current Services	\$ 6,561,448	100.0%	\$ 8,106,267	100.0%	\$ 9,018,403	100.0%
<b>Total Operating Revenues</b>	\$ 6,561,448	100.0%	\$ 8,106,267	100.0%	\$ 9,018,403	100.0%
<b>Operating Expenses</b>						
Administrative and billing	\$ 254,696	3.9%	\$ 266,790	3.3%	\$ 294,803	3.3%
Payments to general government	392,006	6.0%	445,451	5.5%	491,630	5.5%
Water production	2,353,272	35.9%	2,088,623	25.8%	1,955,795	21.7%
Water distribution	592,289	9.0%	1,628,358	20.1%	2,423,453	26.9%
Water system maintenance	1,207,217	18.4%	1,329,939	16.4%	1,121,478	12.4%
Depreciation	887,845	13.5%	2,652,811	32.7%	2,661,406	29.5%
Other	970,251	14.8%	301,679	3.7%	444,784	4.9%
<b>Total Operating Expenses</b>	\$ 6,657,576	101.5%	\$ 8,713,651	107.5%	\$ 9,393,349	104.2%
<b>Operating Income (Loss)</b>	\$ (96,128)	-1.5%	\$ (607,384)	-7.5%	\$ (374,946)	-4.2%
<b>Nonoperating Revenues (Expenses)</b>						
Interest Revenue	\$ 115,944	1.8%	\$ 259,754	3.2%	\$ 200,795	2.2%
Operating grants and subventions	140,000	2.1%	0	0.0%	37,298	0.4%
Litigation settlement and other	376,578	5.7%		0.0%		0.0%
Other		0.0%	\$ 275,469	3.4%		0.0%
<b>Total Non-operating Revenues (Expenses)</b>	\$ 632,522	9.6%	\$ 535,223	6.6%	\$ 238,093	2.6%
<b>Income (Loss Before Operating Transfers)</b>	\$ 536,394	-11.1%	\$ (72,161)	-14.1%	\$ (136,853)	-6.8%
<b>Operating Transfers</b>						
Contributions	\$ 4,802		\$ 454,005			
<b>Net transfers and contributions</b>	4,802		454,005		\$ 116,335	
<b>Change in net assets</b>	\$ 541,196		\$ 381,844		(20,518)	
<b>Beginning Net Assets</b>	<b>32,585,753</b>		<b>\$ 33,126,949</b>		<b>\$ 94,648,251</b>	
GASB 34 Implementation Adjustments			\$ 61,139,458			
<b>Ending Net Assets</b>	<b>\$ 33,126,949</b>		<b>\$ 94,648,251</b>		<b>\$ 94,627,733</b>	
Operating Income (Loss)	\$ (96,128)		\$ (607,384)		\$ (374,946)	

Per discussion with the City, Total Operating Revenues (Revenues) are derived from user fees, connection fees, water fund surcharges, and miscellaneous revenues. Revenues increased by \$1,544,819 in 2007 and by \$912,136 in 2008 principally as a result of approved rate increases in both years.

Operating Expenses as a percent of revenues have fluctuated over the last three fiscal years, and Operating Income has also fluctuated. Over the three-year period, Non-Operating Revenues have decreased primarily due to the fluctuations in Operating grants and subventions, Litigation settlement and other and Other Non-operating revenues. Interest Revenue has also fluctuated.

Staff reviewed the adopted FY 2008-2009 Annual Budget (Budget) and found the budget to be consistent with historical revenues and expenses, with revenues and expenses trending higher. The Project is included in the City's Budget.

### Cash Flow and Debt Service Analysis

The City's current and proposed outstanding obligations are as follows:

OBLIGATIONS							
Original Financing Amount	Origination Date	Issuer/ Lender	Maturity	Interest Rate %	MADS <sup>(1)(2)</sup>	Balance as of 04/10/09 Payment Schedule from City	Lien Position/ Repayment Pledge
\$4,485,000	1994	DWR loan	2011	2.50%	\$315,036	\$758,879	Senior lien on net System revenues
\$5,000,000	2001	DWR loan	2022	2.60%	\$323,965	\$3,892,653	Senior lien on net System revenues
<b>\$10,000,000</b>	<b>2009</b>	<b>Proposed I-Bank</b>	<b>2039</b>	<b>4.00%</b>	<b>\$759,102</b>	<b>\$0</b>	<b>Subordinate lien on net System revenues</b>
<b>Total Debt</b>					<b>\$1,398,103</b>	<b>\$4,651,532</b>	

<sup>(1)</sup> Maximum Annual Debt Service

<sup>(2)</sup> Proposed MADS calculated as \$10,000,000 @ 4.0% for 30 years

On June 10, 1994, the City entered into a contract with DWR for a water conservation construction loan under the Water Conservation Bond Law of 1988 in the amount of \$4,485,000 for a period of 15 years at the interest rate of 2.5%. On March 28, 2001, the City entered into a second contract with DWR for a local projects construction loan under the Safe, Clean Reliable Water Supply Act in the amount of \$5,000,000 for a period of 50 years at the interest rate of 2.6%.

Under the terms of the Contracts, the City is required to establish a dedicated source of revenue for repayment and to make semi-annual payments including principal and interest that are due on April 1 and October 1 of each year until the principal amount of the loan is repaid in full. The Contracts do not allow the City to incur additional indebtedness having priority of payment over the DWR Contracts without prior written consent of the State. DWR confirmed per telephone conversation on April 7 2009, that written permission is not required for the City to incur subordinate or parity debt.

On April 8, 2009, staff received a draft of a letter from DWR staff confirming that the City is current on the Contracts and that a reserve fund for the proposed ISRF loan is not

required. The letter executed by the Acting Chief, Division of Integrated Regional Water Management is forthcoming.

Due to the strength of the credit, staff has determined that a subordinate lien position is acceptable. Future senior liens against the Water Fund will be prohibited.

Historical Water Fund cash flow and debt service analysis (with and without connection fees) for the proposed financing is presented below:

<b>CASH FLOW</b>			
Fiscal Years Ended (FYE),	<b>2006</b>	<b>2007</b>	<b>2008</b>
Operating Income (Loss)	\$ (96,128)	\$ (607,384)	\$ (374,946)
Add back Depreciation Expense	887,845	2,652,811	2,661,406
Add Interest Income	115,944	259,754	200,795
<b>Cash available for debt service w Connection Fees</b>	<b>\$ 907,661</b>	<b>\$ 2,305,181</b>	<b>\$ 2,487,255</b>
<b>Debt Service Calculation</b>			
<b>Cash available for debt service w Connection Fees</b>	<b>\$ 907,661</b>	<b>\$ 2,305,181</b>	<b>\$ 2,487,255</b>
Connection Fees	\$ 285,989	\$ 122,982	\$ 257,840
<b>Cash available for debt service w/o Connection Fees</b>	<b>\$ 621,672</b>	<b>\$ 2,182,199</b>	<b>\$ 2,229,415</b>
Existing DWR Loan #E64007	\$ 315,036	\$ 315,036	\$ 315,036
Existing DWR Loan #E85002	323,965	323,965	323,965
Proposed CIEDB annual debt service (@4.0%)	759,102	759,102	759,102
<b>Total Annual Debt Service</b>	<b>\$ 1,398,103</b>	<b>\$ 1,398,103</b>	<b>\$ 1,398,103</b>
<b>Debt Service Coverage Ratio w Connection Fees</b>	<b>0.65</b>	<b>1.65</b>	<b>1.78</b>
<b>Debt Service Coverage Ratio w/o Connection Fees</b>	<b>0.44</b>	<b>1.56</b>	<b>1.59</b>

The City shows historical repayment ability over the last two immediately preceding fiscal years to service the proposed ISRF Program financing and existing debt. Historical coverage ratios both with and without Connections Fees are greater than the ISRF Program minimum criteria of 1.10 times coverage. The increase in coverage ratios from 2006 to 2007 and 2008 is based largely upon the City's increase in its water rates. The City increased rates in FYE June 30, 2007 and 2008 and has mailed Proposition 218 notices proposing an increase effective August 1, 2009 that will be presented to Council in May. The proposed increase was not used in staff's analysis.

### **Compliance with I-Bank Underwriting Criteria**

I-Bank financing is proposed to be a subordinate lien on net System revenues. Historical cash flow exceeds the minimum 1.10 times debt coverage ratio with connection fees, and 1.0 times debt service coverage ratio without connection fees.

The top ten ratepayers do not exceed 50% of the System's annual revenues.

Revenues derived from any single ratepayer do not exceed 15% of System revenues.

The City has the power to establish and enact rates and charges without the approval of any other governing body.

**Litigation**

The City's application indicates that there is no current or anticipated litigation or material controversy that would materially affect its ability to construct the Project or repay the proposed ISRF Program financing.

**Project Management Ability**

City Utilities Manager, Jacques DeBra, has been employed by the City for 19 years and possesses the experience and knowledge necessary for this project to succeed. He has applied these skills to a project very similar to the East Area Water Storage Tank, the West Davis Water Storage Tank Project which is currently being completed. Other recent projects that Jacques has managed are the Water Meter Retrofit Project, Well Capacity Replacement EIR, Urban Water Management Plan, the Ground Water Management Plan, the Davis-Woodland Water Supply Project, Yolo County Subsidence Monitoring Project, and many others. Jacques utilizes his skills and knowledge on projects from the beginning to the end, tracking project progress and budget from design through construction, provides updates to other administrative staff along with City Council, provides guidance in resolving issues, and other management skills. The City feels confident that Jacques is the most qualified and best suited to manage this project.

**California Environmental Quality Act**

The CEQA process has been completed for the Project. The Project is a component of the larger Davis Well Capacity Replacement Project, which includes the construction of the Project as well as two to three deep aquifer replacement drinking wells. The level of clearance was a mitigated negative declaration. The City filed a Notice of Determination for the larger project with the Yolo County Clerk Recorder on August 1, 2005.

SCORING CRITERIA FOR PRIORITIZING PROJECTS													
POINT CATEGORY	ANALYSIS	MAX PTS	PTS										
Project Impact													
Job Creation/Retention	<p>The Council also approved a development agreement for the new retail development known as the Second Street Crossing that includes a new Target Store and other retail establishments. The City provided a letter from Target dated March 24, 2009, indicating it will employ 35 to 50 full time employees and 135 to 185 part time employees.</p> <p>The City submitted written documentation confirming that DTL recently moved adjacent to Second Street Crossing bringing 70 full-time positions. The City's documentation also indicated that DTL will add 80 new jobs, but no timeline was provided.</p> <p>The Project will help meet the water demands of new development and businesses that move into existing available space.</p> <p>See Exhibit 3 of this report for detailed point calculations.</p>	30	12										
Economic Base Employers	<p>Target, a retail operation, is not an economic base employer. However, DTL is an Economic Base Employer since its customers are outside the City. The DTL jobs represent 41% of the total FTE jobs being created and as such garners a total of 4 points calculated as follows:</p> <table><tr><td colspan="2">Weighted Average Points</td></tr><tr><td>Total DTL FTE</td><td>70</td></tr><tr><td>Divided by Total FTE Jobs</td><td><u>173</u></td></tr><tr><td>Percentage of FTE Jobs</td><td>41%</td></tr><tr><td>Weighted Average Points 41% x 10 points</td><td><u>4</u></td></tr></table>	Weighted Average Points		Total DTL FTE	70	Divided by Total FTE Jobs	<u>173</u>	Percentage of FTE Jobs	41%	Weighted Average Points 41% x 10 points	<u>4</u>	10	4
Weighted Average Points													
Total DTL FTE	70												
Divided by Total FTE Jobs	<u>173</u>												
Percentage of FTE Jobs	41%												
Weighted Average Points 41% x 10 points	<u>4</u>												
Community Employment Development Plan	<p>The City, other incorporated jurisdictions within the County, the unincorporated County and the Yolo County Workforce Investment Board (WIB) are participants in the Comprehensive Economic Development Strategy. CEDS identifies Full Alignment of Workforce Skills and Industry Needs as Goal #1. Workforce training is implemented through County One-Stop Career Centers and other multi-agency collaborations. The City submitted the current CEDS as documentation of its established relationship with local employment and training entities.</p>	10	10										

Quality of Life/Community Amenities	Various surveys, economic studies, and public discussions conclude that several categories of retail goods are underrepresented in the City, resulting in the need for residents to travel outside the City to purchase many basic goods. Travel and purchases outside the City have negative impacts on the regional air quality and local economy. Additionally, the Land Use and Growth Management element of the General Plan recommends creating two new community scale shopping centers to recapture sales leakage. The Project is a necessary and vital capital improvement that will enhance quality of life by improving air quality by reducing vehicle trips, improving community amenities by providing retail goods within the community, and increasing sales tax revenue by capturing sales leakage. Lastly, the Project is consistent with the CEDS.	30	30
<b>Community Economic Need</b>			
Unemployment Rate	The City's 2007 unemployment rate was 3.7%, less than the statewide average of 5.9%.	20	0
Median Family Income	According to the 2000 Census, the City's median family income was \$74,051, 139.7% of the State's average median family income of \$53,025.	15	0
Change in Labor Force Employment	The City's 2007 increase in labor force employment was 5.16%, 323.84% of the State's 1.59% increase in labor force.	10	0
Poverty Rate	According to the 2000 Census, the City's poverty rate was 24.5%, 172.5% of the State's 14.2% poverty rate.	10	10
<b>Land Use, Environmental Protection and Approved Housing Element</b>			
Land Use	The Project meets the second priority for land use since it develops vacant and under-utilized land within existing urban and suburban areas presently served by streets, water, sewer and other public services while preserving open space, historic buildings, recreational opportunities and the distinct identities of neighborhood.	20	15
Environmental Protection	<p>The City is committed to water conservation and water management tools have been used by the City to maximize water resources. The City's Urban Water Management Plan 2005 Update, adopted June 13, 2006, reports that the City developed several documents to help maximize water resources, including numerous reports prepared in the last decade that address water supply and demand for the City.</p> <p>Since August 1994, the City has been a signatory of the California Urban Water Council's</p>	10	10

	<p>Memorandum of Understanding Regarding Urban Water Conservation in California (MOU). The MOU requires that a water utility implement only the urban Best Management Practices (BMPs) for conserving water that are economically feasible. The City has implemented all but two BMPs.</p> <p>The Second Street Crossing development, which will be supported by the Project, is not only convenient to travelers along the I-80 corridor, but is also fully accessible by public transportation. The new businesses, including Target and DTL, are located along an established public bus route and the UC transportation bus route. Both bus routes are also linked to the train station located near the UC campus providing easy access to potential Target customers and employees. The locations reduce the need for customers and employees to commute to other cities to shop and work.</p> <p>Tangentially, the Second Street Crossing Target store is committed to lessening its impact on the environment and will be obtaining LEED certification. Target has incorporated solar panels into its construction plan to reduce impact on the energy grid and utilize a renewable energy source.</p> <p>Though not included in this Project, as part of the second phase of construction for the east area storage tank, solar panels will be installed at the existing nearby park and ride. It is anticipated that the solar panels will power approximately 20% of the total energy used at the storage tank and structures also lessening the impacts on the energy grid.</p>		
Housing Element	Per telephone conversation on February 24, 2009, with Housing and Community Development (HCD) representative Melinda Coy, the City has not yet submitted its Housing Element update revisions. Therefore, the City does not currently have an approved HCD General Plan Housing Element.	10	0
<b>Leverage</b>			
Leverage	The City will contribute \$406,000 to the Project compared to \$10,000,000 in ISRF Program funding, which provides a leverage ratio of 0.04 to 1.0.	15	0
<b>Readiness</b>			
Readiness	Project construction is scheduled to start July 2009.	10	5
<b>TOTAL</b>		<b>200</b>	<b>96</b>

## STAFF RECOMMENDATIONS

Staff recommends approval of Resolution No. 09-15 authorizing financing for the City of Davis for the Project as follows:

1. **Borrower:** City of Davis.
2. **Project:** East Area Water Storage Tank Capital Improvement Project (CIP8172).
3. **Amount of Financing:** Not to exceed \$10,000,000.
4. **Maturity:** Not to exceed 30 years.
5. **Funding Availability:** I-Bank's financing commitment is subject to the availability of funds from either, or a combination of, proceeds of revenue bonds or I-Bank equity funds.
6. **Repayment/Security:** Subordinate lien on the Water System net revenues.
7. **Interest Rate:** 67% of Thompson's Municipal Market Data Index for an "A" rated tax-exempt security with a weighted average life similar to the I-Bank financing based rates as of April 1, 2009.
8. **Fees:** Financing origination fee of 0.85% of the I-Bank financing amount and an annual fee of 0.30% of the outstanding principal balance.
9. **Type of Financing Agreement:** Installment Sale Agreement.
10. **Financing Agreement Covenants:** The Installment Sale Agreement shall include, among other things, the following covenants:
  - a. Rates and charges shall be maintained sufficient to ensure 1.10 times aggregate annual debt service ratio for senior and parity obligations.
  - b. Net Revenues from the Water System may not be pledged on a senior basis. Net revenues of the Water System may be pledged on a parity basis for future financing if net revenues (adjusted for rate increases and system expansion) will provide an aggregate future debt service coverage of 1.10 times maximum annual debt service on all parity debt, inclusive of the proposed financing.
  - c. Borrower shall be authorized to prepay all or a portion of the outstanding principal balance according to the following: 102% of the outstanding principal balance if the prepayment date is on or after ten years, but less than eleven years, from the effective date of the Agreement, or 100% of the outstanding principal amount of the I-Bank bonds to which the Borrower's loan is pledged to repay and scheduled to be called for redemption as a result of the prepayment plus accrued interest on the bonds to be redeemed as of the date scheduled for redemption (Redemption Amount), whichever is greater; 101% of the outstanding principal balance if the prepayment date is on or after eleven years, but less than twelve years, from the effective date of the Agreement or the Redemption Amount, whichever is greater; or without premium if the prepayment date is twelve years or more from the effective date of the Agreement or the Redemption Amount, whichever is greater. The Borrower may on any date provide for a legal defeasance of the principal amount outstanding and any additional payment then due.

- d. An agreement to indemnify the I-Bank and its directors, officers and employees from any liability arising from the Installment Sale Agreement or from construction or operation of the Project.
11. Conditions Precedent to Execution of I-Bank Installment Sale Agreement:
- a. Borrower resolution authorizing the execution and delivery of the Installment Sale Agreement and approving certain other matters in connection therewith.
  - b. Receipt of an opinion of legal counsel to Borrower that the Borrower has the legal authority to enter into the Installment Sale Agreement, that there is no litigation currently pending or threatened that would in any way affect pledged revenues, that the Installment Sale Agreement is a legal, binding and enforceable agreement of the Borrower, and that the Borrower is not in default of any agreement or obligation secured by revenues of the water system.
  - c. Executed tax certificate.
12. **Conditions Precedent to Initial Disbursement:** The following are some of the conditions, which will be required precedent to the initial disbursement of I-Bank funds:
- a. Execution of an Installment Sale Agreement consistent with the terms contained herein.
13. Conditions Precedent to Construction Disbursement For Each Project Phase:
- a. Certification by the Borrower, the Borrower's legal counsel or other individual acceptable to the I-Bank that the Borrower:
    - i. Has obtained the land, rights-of-way, easements, and orders of possession that are required for construction.
    - ii. All required permits have been obtained.
  - b. For each construction contract:
    - i. A written statement by the Borrower, the Borrower's legal counsel other individual acceptable to the I-Bank that:
      - 1. All construction contracts necessary for the construction of the applicable Project component have been awarded, and were awarded pursuant to competitive bidding and the Borrower's procedures normally required for similar construction projects.
      - 2. Project costs for the applicable Project component are consistent with the Sources and Uses listed in this staff report; and
      - 3. Appropriate builder's risk insurance has been obtained and the policy names the Borrower as additional insured and loss payee, contractor has acquired and shall be required to maintain liability insurance and name the Borrower as an additional insured, and contractor shall be required to obtain performance and payment bond provisions and name the Borrower as additional payee.
      - 4. All construction contracts are let to the lowest responsible bidder at a fixed price subject to increase only for allowable extra work, change orders approved the Borrower, and damages or delays authorized by the laws of the State.
      - 5. All construction contracts require: payment of prevailing wage rates and compliance with Chapter 1 (commencing with Section 1720) of Part 7 of Division 2 of the California Labor Code.

6. All construction contracts require payment of workers' compensation insurance by contractors and subcontractors.
7. All construction contracts include the nondiscrimination provisions.
8. The Borrower has utilized the contractor pre-qualification forms developed by the Department of Industrial Relations as set forth in AB 574 (Chapter 972 of the Statutes of 1999) codified in Public Contract Code Section 20101 et seq.
  - ii. Submittal of a copy of the complete construction contract.
  - iii. Submittal of a copy of the contractor's builder's risk insurance policy, and a copy of the contractor's payment and performance bonds.

**14. Conditions Precedent to Final Disbursement:** The following are some of the conditions precedent to final disbursement of I-Bank funds:

- a. Recorded Notice of Completion or other evidence of completion for each Project component.
- b. Lien waivers for the Project, or passage of the applicable statutory time periods for filing mechanics and other similar liens.
- c. Certification that the Project has been completed in accordance with the approved plans and specifications, and that the completed Project is consistent with the definition of Project in this Staff Report and is acceptable to the Borrower.
- d. Certification that the Borrower has obtained all licenses and permits (including operating permits), and approvals from any governmental agency or authority having jurisdiction over the Borrower in connection with the Project.

**15. Financial and Other Reporting Requirements:**

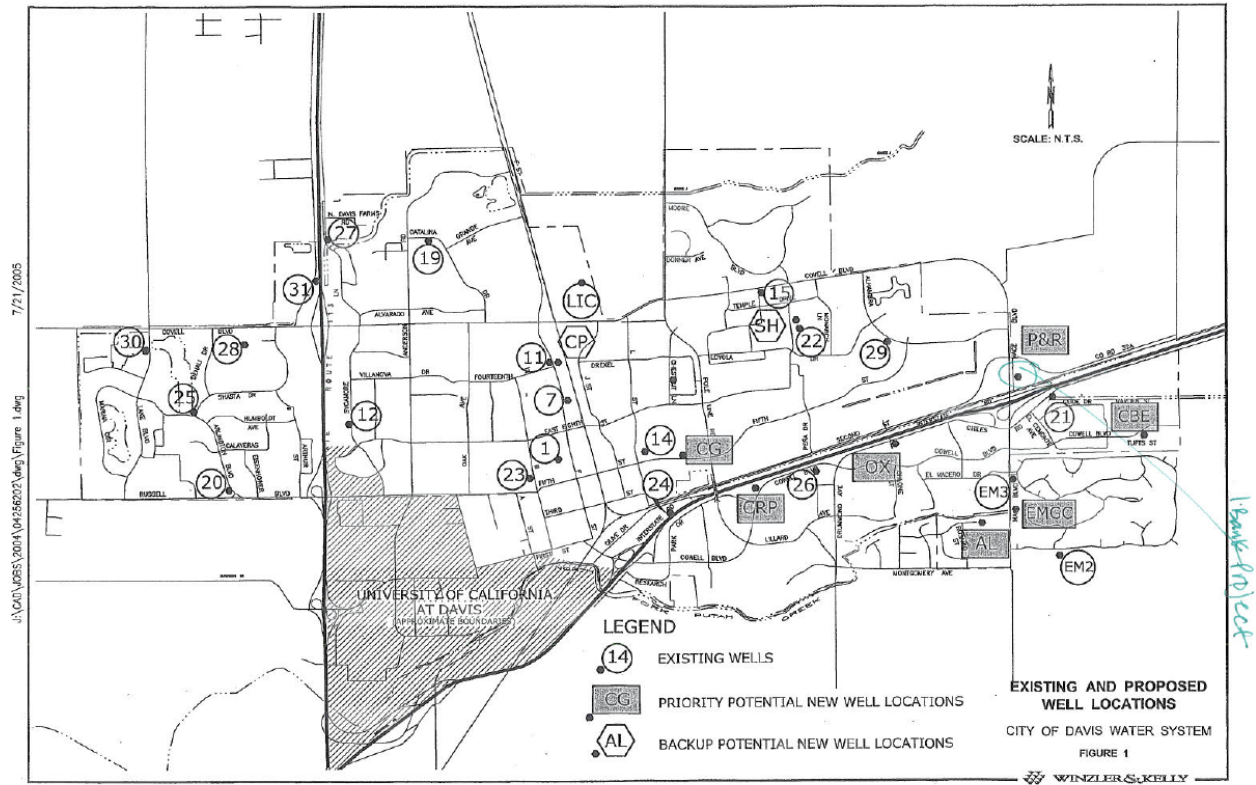
- a. Audited annual Borrower financial statements, due to the I-Bank within 210 days of fiscal year end.
- b. Other information as the I-Bank reasonably may request from time to time.

## EXHIBIT 1 - MAPS

Location of the City



# Project Location

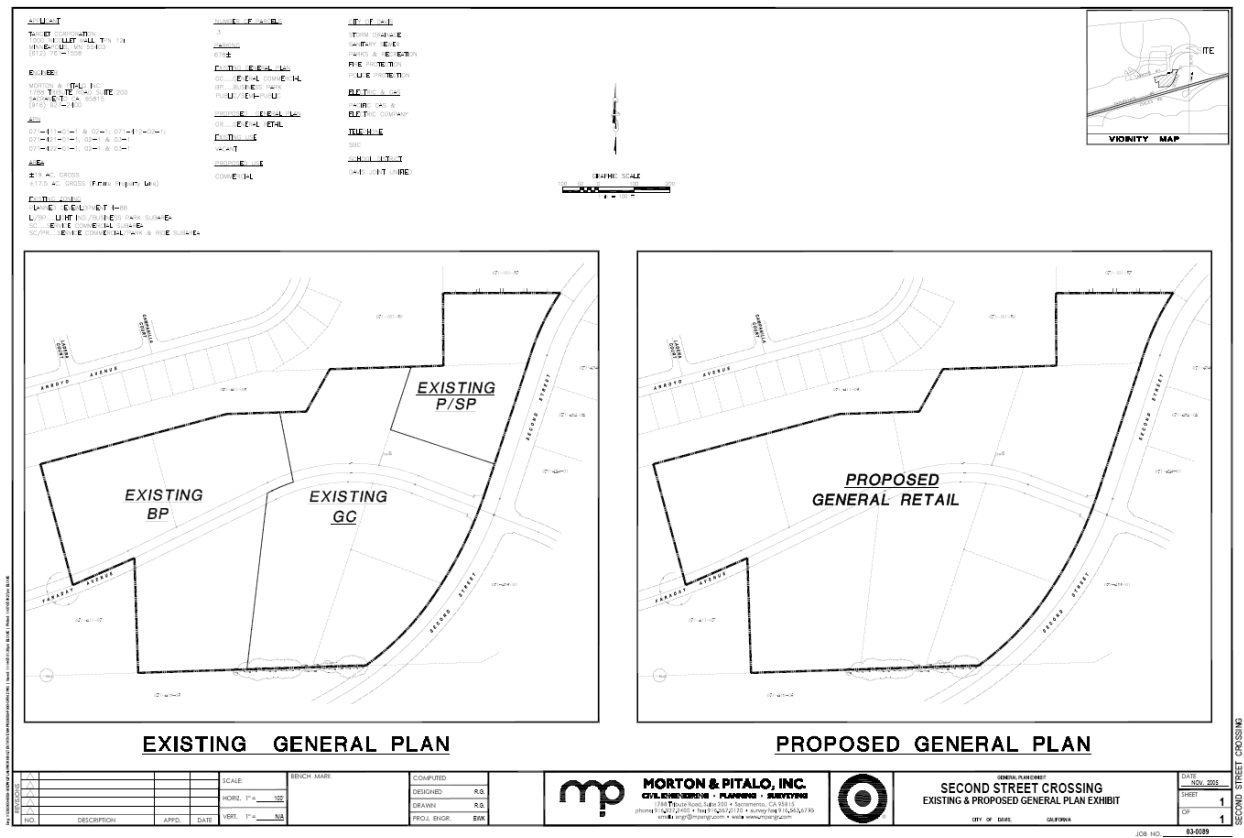


## Aerial View of Project Location

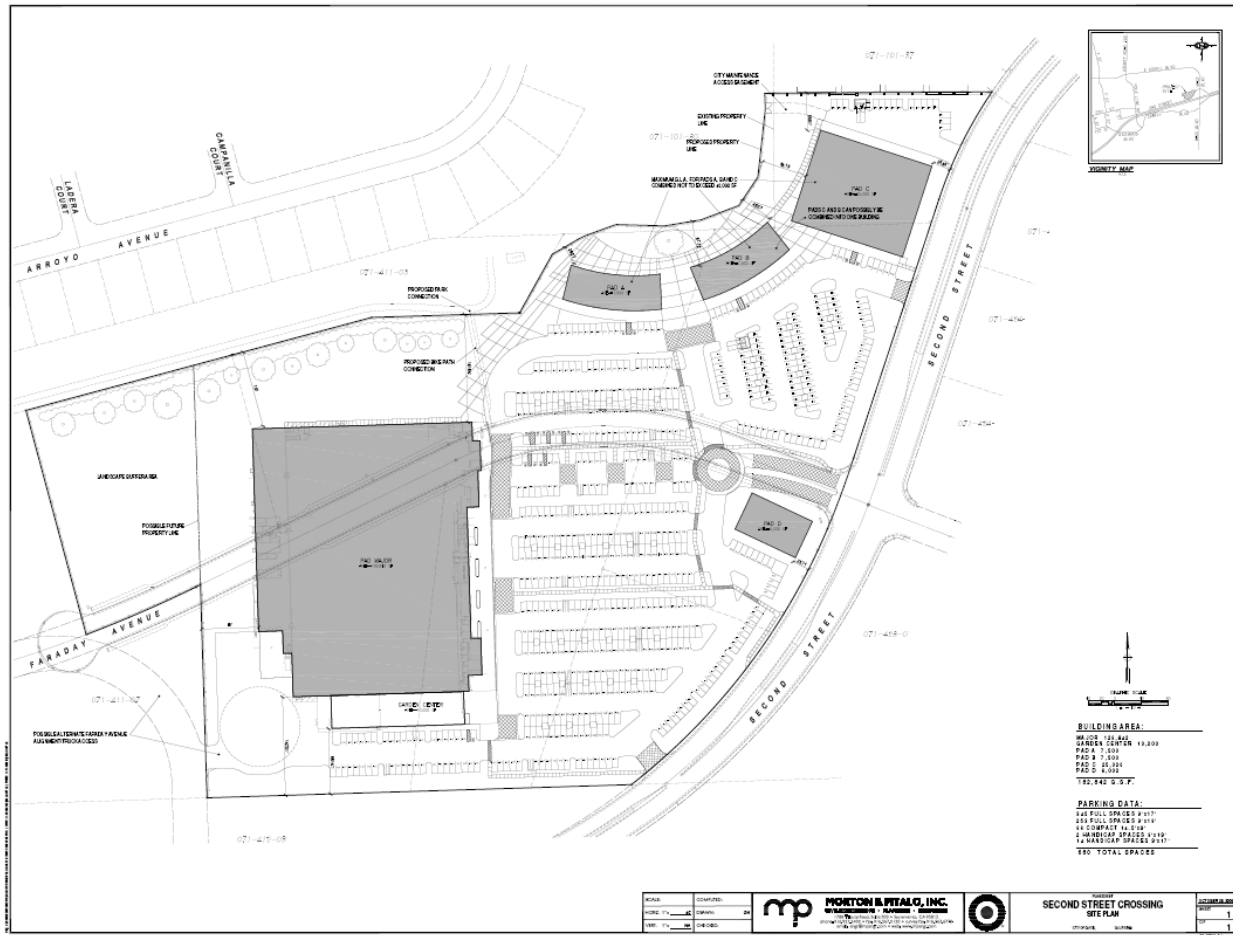


EXHIBIT 2 – SECOND STREET CROSSING

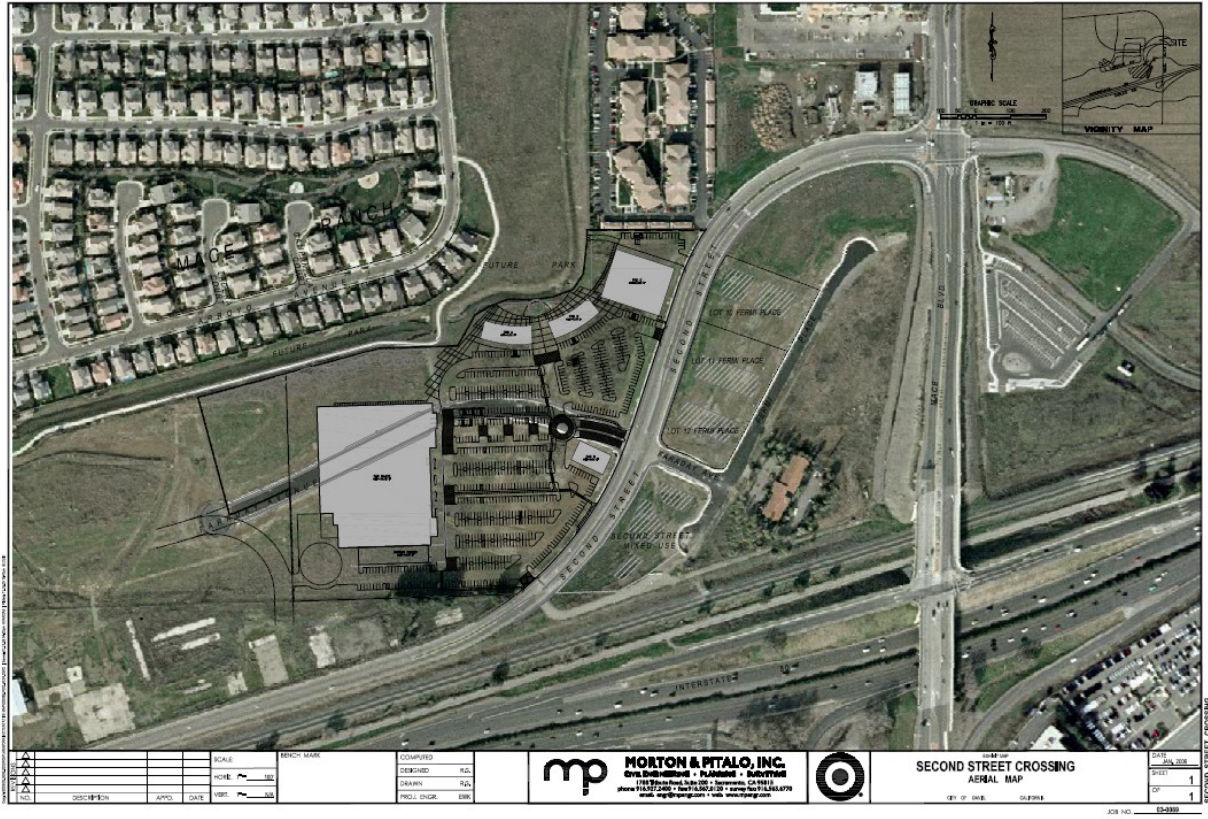
Second Street Crossing Map



## Second Street Crossing Site Plan Locations of Target Store and Other New Retail Shops



# Aerial View of Second Street Crossing Target Store and Other New Retail Shops



### EXHIBIT 3 – Jobs Created

Job Creation Points Calculations				
FTE Calculations				
<b>Target<sup>(1)</sup></b>				
FT Employees		35		
PT Employees	135			
FTE factor <sup>(2)</sup>	0.5	<u>68</u>		
Total estimated Target FTE			103	
<b>Digital Technological Laboratory Corp. (DTL)<sup>(3)</sup></b>				
FT Employees			<u>70</u>	
<b>Total FTE Jobs</b>			<b>173</b>	
Points Calculation				
Loan amount		\$10,000,000		
Total FTE Jobs		173		
Loan amount divided by FTE Jobs		\$ 57,971		
Point Range				
1: \$50,001 to 1: \$65,000				
Based on written confirmation			14	
Based on feasibility study			10	
<b>Weighted Average Point Calculation</b>				
Weighted Average Points Based upon Written Confirmation				
Total estimated Target FTE		103		
Divided by Total FTE Jobs		<u>173</u>		
Percentage of FTE Jobs Based Upon Written Confirmation			59%	
Weighted Average Points 59% x 14 points				8
Weighted Average Points Based upon Feasibility Study				
Total DTL FTE		70		
Divided by Total FTE Jobs		<u>173</u>		
Percentage of FTE Jobs Based Upon Feasibility Study			41%	
Weighted Average Points 41% x 10 points				<u>4</u>
<b>Total Job Creation Points</b>				<b>12</b>

<sup>(1)</sup> Conservatively, staff used the low estimate from Target letter.

<sup>(2)</sup> City estimated the full-time equivalent factor as 0.5.

<sup>(3)</sup> Other written documentation acceptable to the I-Bank submitted by the City and equivalent to a feasibility study.